

Message Text

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INFO OCT-01 ISO-00 AF-08 ARA-06 EA-07 EUR-12 NEA-10
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00
FEAE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04
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R 241216Z JAN 77

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 978

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USMISSION EC BRUSSELS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

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AMEMBASSY ROME

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E.O. 11652: GDS

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TAGS: ENRG UK OPEC IR

SUBJ: IRAN AND THE OPEC TWO-TIER PRICES

REF A. LONDON 01073 B. KUWAIT 0416 C. LONDON 1209

WE BELIEVE THAT THE ANALYSIS AND CONCLUSIONS
SET FORTH IN REFTEL MERIT CLOSE CONSIDERATION. IT IS

OBVIOUS THAT THE TWO-TIER PRICE SYSTEM IS CAUSING A GREAT DEAL OF UNCERTAINTY AND CONCERN AMONG OPEC ELEVEN AS WELL AS AMONG OIL COMPANIES AND CONSUMERS. A FAIR AMOUNT OF SCURRYING ABOUT AND CONSULTATION AMONG PERSIAN GULF MEMBERS OF OPEC ELEVEN SEEMS TO BE WELL UNDERWAY WITH NO CLEAR CONSENSUS YET EMERGING. IRAN DOES NOT LIKE THE PRESENT SITUATION AT ALL, BUT BEYOND PUBLIC PYROTECHNICS AIMED LARGELY AT SHEIKH YAMANI, IT DOES NOT SEEM INCLINED TO DO ANY MORE AT THE MOMENT THAN LET THE SITUATION SORT ITSELF OUT IN THE MARKET PLACE. WE SERIOUSLY DOUBT THAT THE USG HAS SIGNIFICANT LEVERAGE IN CURRENT INTRA-OPEC DISPUTE; AND WE, THEREFORE, SUGGEST THAT THE MOST APPROPRIATE COURSE OF ACTION IS LARGELY TO SIT BACK AND WATCH. END SUMMARY.

1. A BRITISH EMBASSY COLLEAGUE GAVE US A BRIEF RUNDOWN ON SUTCLIFFE'S JUST CONCLUDED VISIT WHICH SOMEWHAT SURPRISINGLY APPEARS TO HAVE GONE MUCH MORE SMOOTHLY THAN EXPECTED. SUTCLIFFE EXPLAINED THE BASIC ECONOMIC FACTS OF LIFE TO EGHBAL AND MINA OF NIOC AND TO IRAN'S OPEC REPRESENTATIVE AMOUZEGAR. HE POINTED OUT AMONG OTHER THINGS THE DIFFICULT COMPETITIVE POSITION BP IS IN WITH A 60 CENTS A BARREL DIFFERENCE BETWEEN SAUDI AND IRANIAN OIL. HE SAID HE COULD NOT SPEAK FOR THE CONSORTIUM AS A WHOLE BUT DID NOT BELIEVE THAT IT COULD TAKE MORE THAN 3 TO 4 MILLION BARRELS A DAY OF IRANIAN OIL IN THE FIRST QUARTER OF 1977 UNDER PRESENT CIRCUMSTANCES. (COMMENT: WE WOULD HAVE THOUGHT THAT, SUBJECT TO AVAILABILITY OF CHEAPER SAUDI AND U.A.E. OIL, CONSORTIUM CRUDE EXPORTS DURING THE FIRST QUARTER OF 1977 WOULD NOT EXCEED 3 MILLION BPD BY MUCH IF AT ALL. THE CONSORTIUM--

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ESPECIALLY MEMBERS THAT ARE ALSO ARAMCO SHAREHOLDERS--IN EARLY 1976 DEMONSTRATED ITS WILLINGNESS TO RISK IRANIAN DISPLEASURE BY DRAMATICALLY REDUCING LIFTINGS OF IRANIAN HEAVY CRUDE WHEN IT WAS THOUGHT TO BE OVER-PRICED BY A MUCH SMALLER AMOUNT THAN IS CURRENTLY THE CASE. TOTAL CRUDE OFF-TAKE BY THE CONSORTIUM FELL TO A LOW OF 3.2 MILLION BPD IN FEBRUARY 1976. MOREOVER, IRAN SHOWED ITSELF TO BE RESPONSIVE TO MARKET PRESSURE BY REDUCING PRICE OF ITS HEAVY CRUDE BY 9.5 CENTS/BBL IN FEBRUARY AND BY ADDITIONAL 10 CENTS/BBL IN JUNE. END COMMENT.) EXPECTED OFF-TAKE MIGHT IMPROVE THEREAFTER, BUT IF AN ADDITIONAL 5 PERCENT PRICE INCREASE WAS LEVIED IN JULY OFF-TAKE COULD BE EXPECTED TO TAKE ANOTHER SHARP DIP. SUTCLIFFE PUT HIS VIEWS IN WRITING WHICH HAVE REPORTEDLY BEEN READ BY THE SHAH (EMBASSY LONDON MAY WISH TO SEE IF THE ACTUAL TEXT IS AVAILABLE). PLAYBACK VIA MINA WAS RELATIVELY MODERATE WITH HOPE BEING EXPRESSED THAT THE CONSORTIUM "WOULD DO ITS BEST" AND THAT IRAN WOULD WATCH ITS PERFORMANCE CLOSELY AND TREAT MEMBER COMPANIES ACCORDINGLY IN THE FUTURE. CONTRARY TO EARLIER EXPECTATIONS, SUTCLIFFE WAS NOT INVITED TO MEET THE SHAH BUT WAS LEFT WITH THE IMPRESSION THAT HE WOULD DO WELL TO

RETURN TO IRAN FOR FURTHER DISCUSSIONS IN ABOUT ONE MONTH.

2. AS DEPARTMENT AWARE, IRAQIS AND QATARIS HAVE BEEN HERE AND APPARENTLY CERTAIN NUMBER OF MESSAGES HAVE BEEN EXCHANGED BETWEEN IRAN AND OTHER PERSIAN GULF MEMBERS OF OPEC. FOR THE MOMENT IRAN SEEMS TO BE AGAINST THE MOTION BEING PUSHED BY IRAQ TO CONVENE A SPECIAL OPEC SESSION BUT, AS FOREIGN MINISTER KHALATBARY TOLD THE CHARGE, IRAN WOULD ATTEND IF ALL OTHER MEMBERS WANTED ONE. IRAN KNOWS THAT IT ALONG WITH KUWAIT AND IRAQ ARE THE MOST VULNERABLE TO PRESSURE BROUGHT ON BY PRICE DIFFERENCES AND POSSIBLE SAUDI PRODUCTION INCREASES. IT ALSO KNOWS THAT DUE TO HISTORIC ANTECEDENTS, PRIVILEGED LOCATIONS IN RELATION TO MAJOR MARKETS AND DIFFERING CRUDE CHARACTERISTICS, NON-PERSIAN GULF MEMBERS ARE ABLE TO FOLLOW RELATIVELY INDEPENDENT PRICING POLICIES AND, JUDGING FROM WHAT WE HEAR, THEY HAVE INCREASED PRICES TO THE DEGREE THAT THEY THINK THE MARKET WILL BEAR AND HAVE USED DIFFERENTIALS TO DISGUISE OR JUSTIFY FAILURE TO INCREASE PRICES BY FULL \$1.19/BBL
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INCREMENT. IT ALSO KNOWS USE OF DIFFERENTIALS TO FUDGE PRICES IS NOT AN OPTION READILY AVAILABLE TO IT AND THERE IS AN EVERPRESENT RISK THAT IRAQ MAY BE AMONG THE FIRST OF PERSIAN GULF

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L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06 SP-02
SS-15 STR-04 TRSE-00 ACDA-07 AF-08 ARA-06 EA-07
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R 241216Z JAN 77

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 980

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

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PRODUCERS TO SHAVE PRICES LEADING TO A COLLAPSE OF THE TWO TIER SYSTEM OR COMPROMISE ON TERMS THAT ARE LARGELY DICTATED BY SAUDI ARABIA. NEVERTHELESS, IT WOULD BE DIFFICULT POLITICALLY AND ECONOMICALLY FOR IRAN TO ACCEPT A ROLLBACK AND IT SEEMS PREPARED TO PLAY A WAITING GAME FOR A BIT LONGER.

3. AN OBVIOUS QUESTION IS WHAT THE USG AND PERHAPS OTHER CONSUMER COUNTRY GOVERNMENTS CAN OR SHOULD DO TO CONTRIBUTE TO OR HASTEN AN EROSION OF CONFIDENCE AMONG THE OPEC ELEVEN AND A RETREAT FROM THE EXISTING 10 PERCENT PRICE INCREASE AND/OR THE PROSPECTIVE 15 PERCENT PRICE INCREASE. ACCORDING TO OUR ANALYSIS THERE IS NOT MUCH THAT WE CAN OR SHOULD DO. THE ABILITY AND/OR WILLINGNESS OF USG OR OTHER GOVERNMENTS TO TAKE EFFECTIVE ACTION SEEMS LIMITED IN SHORT-TERM AND NEGLIGIBLE IN MEDIUM-TERM WHEN CURRENT PRICE ANOMALY IS LIKELY TO BE RESOLVED. IF OECD MEMBERS COULD IN COMING MONTHS SIGNIFICANTLY REDUCE THEIR IMPORTS OF OPEC ELEVEN OIL BY (A) REDUCING OVERALL CONSUMPTION VIA CONSERVATION, (B) INCREASING NON-OPEC OIL PRODUCTION, OR (C) INCREASING USE OF ALTERNATIVE ENERGY SOURCES THEN THE PRESSURE ON IRAN, IRAQ, ET AL TO REDUCE PRICES WOULD PROBABLY BE OVERWHELMING. HOWEVER, THE INCENTIVES FOR CONSERVATION, INCREASED PRODUCTION OF NON-OPEC OIL, AND FOR GREATER RELIANCE ON ALTERNATIVE ENERGY SOURCES WERE HIGH BEFORE DOHA MEETING AND SITUATION WAS NOT APPRECIABLY CHANGED BY OUTCOME OF THAT MEETING. RECENT EXPERIENCE AND EXPERT OPINION SUGGEST THAT, WITH THE EXCEPTION OF SAUDI ARABIA, OIL PRODUCTION CANNOT BE EXPANDED RAPIDLY DESPITE

FINANCIAL INCENTIVES. INsofar AS CONSERVATION IS CONCERNED, THE TRACK RECORD OF MAJOR OIL IMPORTERS IS EITHER RELATIVELY GOOD (WITNESS PETROLEUM PRODUCT PRICES IN WESTERN EUROPE) OR SPECIFIC FAILURES ARE ATTRIBUTABLE TO POLITICO-ECONOMIC QUESTIONS THAT ARE NOT EASILY OR QUICKLY RESOLVED. THE OUTLOOK FOR INCREASED PRODUCTION ALTERNATIVE FUELS IN SHORT OR MEDIUM-TERM IS ALSO NOT BRIGHT--IN FACT IRAN CAN MAKE A CONVINCING CASE FOR HIGHER OIL PRICES IF CONSIDERATIONS OTHER THAN COST OF

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ALTERNATIVES ARE IGNORED.

4. IT APPEARS TO US THAT EXPEDITIOUS DRAWDOWN OF EXCESS INVENTORIES AND GREATEST POSSIBLE RELIANCE ON SAUDI AND U.A.E. OIL ARE THE TWO NATURAL AND MOST LIKELY RESPONSES OF OIL COMPANIES AND CONSUMERS TO TWO-TIER PRICE SYSTEM. THESE RESPONSES, UNLIKE MOST INITIATIVES USG MIGHT EMBARK UPON, COME INTO PLAY IMMEDIATELY AND PROVIDE OPEC ELEVEN WITH NO EFFECTIVE GROUNDS ON WHICH TO ACCUSE WESTERN GOVERNMENTS OF STRONG-ARM TACTICS. THE SHAH MAY COMPLAIN ABOUT FALLING EXPORTS AND EXPRESS ALARM ABOUT IMMINENT DISASTER, BUT HE KNOWS THE RULES OF THE GAME AND SEEMS AWARE OF HIS INABILITY TO CHANGE THEM. IT SHOULD ALSO BE NOTED THAT THREAT OF BLACKLISTING WAS DIRECTED NOT AT THE CONSORTIUM BUT AT COMPANIES WHICH, IN IRANIAN VIEW AT LEAST, WERE FAILING TO HONOR CONTRACTUAL OBLIGATIONS.

5. SINCE NORMAL OPERATION OF MARKET FORCES IS BRINGING GREAT PRESSURE ON AT LEAST THE MOST SUSCEPTIBLE MEMBERS OF OPEC ELEVEN, AND SINCE USG HAS VERY LIMITED LEVERAGE, WE SUGGEST THAT THE MOST APPROPRIATE COURSE OF ACTION IS LARGELY TO SIT BACK AND WATCH. WE BELIEVE THAT ANY MAJOR ATTEMPT BY USG, EITHER OVERTLY OR COVERTLY, TO INFLUENCE EVENTS COULD JEOPARDIZE LONG-TERM RELATIONS (WITH IRAN CERTAINLY, BUT OTHERS AS WELL) FOR WHAT ARE ESSENTIALLY SHORT-TERM CONSIDERATIONS. MOREOVER, TO THE EXTENT THAT THERE IS AN APPRECIATION BY OPEC ELEVEN, OR RATHER BY SOME INFLUENTIAL PARTIES IN SOME MEMBERS OF OPEC ELEVEN, THAT THEY HAVE GONE TOO FAR, THE USG SHOULD BE EXTREMELY CAUTIOUS IN ENTERING THE FRAY. THE NUMBERS, COMMITMENT AND INFLUENCE OF THE MODERATES IN THE CAMPS OF THE OPEC HAWKS COULD BE SERIOUSLY UNDERMINED BY THE PUBLICITY WHICH COULD FOLLOW PRECIPITATE USG ACTION. FINALLY, ALTHOUGH AGREEMENT OF OPEC ELEVEN TO INCREASE OIL PRICES BY 10 PLUS 5 PERCENT MIGHT ACCURATELY BE TERMED IRRESPONSIBLE, THE POLITICAL AND ECONOMIC FACTORS THAT LED TO THIS DECISION HAVE LONG BEEN EVIDENT. THE RESOLVE OF THE ELEVEN, OR PERHAPS ONLY THE DETERMINATION OF SAUDI ARABIA, WAS SURPRISING AND LED TO THE UNEXPECTED

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AGREEMENT TO DISAGREE; BUT, THE BASIC ASPIRATIONS OF THE PRICE
HAWKS ARE NOT LIKELY TO BE SIGNIFICANTLY CHANGED REGARDLESS OF
OUTCOME OF PRESENT SHOWDOWN. CONSEQUENTLY, WE BELIEVE THAT OUR
IMMEDIATE AS WELL AS LONG-TERM APPROACH TO UNREASONABLE EXPECTA-
TIONS OF OPEC HAWKS SHOULD BE CONSISTENT, MEASURED, AND ABOVE-
BOARD.

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TRSE-00 ACDA-07 /131 W

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FM AMEMBASSY TEHRAN

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INFO AMEMBASSY ABU DHABI

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6. KUWAIT 0416 WAS RECEIVED WHILE THIS MESSAGE WAS BEING TYPED,
AND WE CONCUR IN BELIEF EXPRESSED THEREIN THAT IT IS MOST IMPOR-
TANT THAT OIL COMPANIES TAKE AS FIRM A STAND AS POSSIBLE AGAINST
OIL PRICE HIKE. OBVIOUSLY, INTERNATIONAL OIL MARKET REQUIRES
SUBSTANTIAL QUALITIES FROM IRAN, KUWAIT, ETC., BUT PSYCHOLOGICAL
MOMENTUM COULD WELL BE ON OUR SIDE AND OIL COMPANIES SHOULD BE
PROVIDED RATIONALE FOR MAINTAINING AND EVEN INCREASING PRESSURE.
MIKLOS

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Message Attributes

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Copy: SINGLE
Sent Date: 24-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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